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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In re Applications of)

NEXTEL COMMUNICATIONS, INC.,)
Transferor,)

and)

SPRINT CORPORATION,)
Transferee,)

for Consent to the Transfer of Control of)
Entities Holding Commission Licenses and)
Authorizations Pursuant to Sections 214 and)
310(d) of the Communications Act)

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MAY 20 2005

Federal Communications Commission
Office of the Secretary

WT Docket No. 05-63

Nextel Response to
FCC Request for Information

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May 20, 2005

HAND DELIVERY

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: REDACTED – FOR PUBLIC INSPECTION
Ex Parte Presentation, Response to April 29, 2005 Initial Information and Document Request, *Applications for Consent to the Transfer of Control of Entities Holding Commission Licenses and Authorizations Pursuant to Sections 214 and 310(d) of the Communications Act*, WT Docket No. 05-63

Dear Ms. Dortch:

On behalf of Nextel Communications, Inc. ("Nextel"), and in accordance with the Protective Order adopted in this proceeding,¹ an anticipated order adopting a Second Protective Order,² and instructions from Wireless Telecommunications Bureau staff, enclosed please find two copies of Nextel's redacted response to the Commission's Initial Information and Document Request ("Information Request") of April 29, 2005.³ These materials are being submitted under the request for confidential treatment previously filed by

¹ *Applications for the Transfer of Control of Licenses and Authorizations from Nextel Communications, Inc. and Its Subsidiaries to Sprint Corporation*, Order Adopting Protective Order, WT Docket No. 05-63, DA 05-423 (rel. Feb. 16, 2005).

² See Letter from Regina M. Keeney, Lawler, Metzger, Milkman & Keeney, LLC and Michael G. Jones, Willkie Farr & Gallagher, to Catherine W. Seidel, Acting Chief, Wireless Telecommunications Bureau, WT Docket No. 05-63 (May 17, 2005) ("May 17 Letter").

³ See Letter from Scott D. Delacourt, Deputy Chief, Wireless Telecommunications Bureau to Larry Krevor, Vice President, Government Affairs, Nextel Communications, Inc., WT Docket No. 05-63 (Apr. 29, 2005).

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Ms. Marlene H. Dortch

May 20, 2005

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Nextel and Sprint and in accordance with the Commission's rules.⁴ Further, even assuming *arguendo*, the FCC were to determine that some of these materials are not eligible for the more restrictive confidential treatment requested by Sprint and Nextel, they clearly are entitled to the protection afforded by the Protective Order. In that circumstance, therefore, such materials should be treated as confidential and "Copying Prohibited" under the Protective Order.

As required by the Protective Order, Nextel is also submitting separately under seal a copy of its confidential, unredacted response. In addition, Nextel will deliver two paper copies of both its redacted response and its confidential, unredacted response to Louis Peraertz, Spectrum and Competition Policy Division, Wireless Telecommunications Bureau.

The confidential, unredacted version of Nextel's response will be made available for inspection, pursuant to the terms of the Protective Order and the anticipated Second Protective Order, at the offices of Jones Day, antitrust counsel for Nextel.⁵ Arrangements for inspection may be made by contacting Renee Callahan or Steve Berman of Lawler, Metzger, Milkman & Keeney, LLC at (202) 777-7700.

Sincerely,



Regina M. Keeney

Counsel to Nextel Communications, Inc.

Enclosures

cc: Louis Peraertz
Sara Mechanic
Best Copying and Printing, Inc.

⁴ See May 17 Letter; 47 C.F.R. § 0.459.

⁵ Jones Day is located at 51 Louisiana Avenue, NW, Washington, DC 20001.

FCC INTERROGATORY NO. 1

1. *Paragraphs 6, 68, 69, 73, and 134 of the Charles River Associates Declaration argue that independent wireless carriers such as Sprint and Nextel have stronger incentives to lower wireless prices, invest in wireless innovations, and deploy new services than ILEC-affiliated carriers. Provide empirical evidence to substantiate this statement. For example, given that Verizon Wireless was the first CDMA carrier in the United States to invest in the deployment of a high-speed wireless data network based on 1x EV-DO technology, is there any evidence that independent wireless carriers have invested in wireless innovations and deployed new mobile wireless services more rapidly than ILEC-affiliated wireless carriers?*

Response:

Empirical evidence supports the economic theory that a combined Sprint Nextel will innovate more rapidly, price more competitively, and deploy more quickly in the commercial wireless services market than wireless carriers that are affiliated with incumbent local exchange carriers (ILECs). Nextel, for example, would likely not have taken a leading role in encouraging wireless substitution for wireline voice services if it were affiliated with an ILEC. Nextel has aggressively pursued the deployment of wireless service as a substitute for wireline service on corporate campuses. Through Nextel's Campus Unlimited Program (CUP), users receive unlimited iDEN cellular service within a 'virtual' calling area covering a corporate or institutional campus for a flat monthly fee. Because employees incur no per-minute metering while on the corporate or institutional campus where they work, major companies, such as General Motors, that subscribe to Nextel's CUP offering can reduce their dependence on costly, ILEC-dominated wireline voice solutions. If Nextel were affiliated with an ILEC, however, the combined company would likely pursue wireless substitution through "campus coverage" much more cautiously, if at all, since doing so would threaten wireline revenues from existing corporate customers.

As a pure wireless carrier, Nextel has strong incentive to develop differentiated wireless broadband solutions designed to compete with and to exceed the ILECs' current high-speed offerings. Nextel has actively tested and developed high-speed data technology, including a major broadband data trial in Raleigh, North Carolina that used FLASH-OFDM, or "Fast Low-latency Access with Seamless Handoff – Orthogonal Frequency Division Multiplexing." In its Raleigh trial, Nextel configured more than 100 transmitter sites to support Flash-OFDM broadband data for more than 2500 customers. With typical downlink speeds of 1.5 Mbps and typical uplink speeds of 375 kbps, a substantial portion of Nextel's customers cancelled their DSL service and used Nextel's wireless high-speed broadband product instead. Nextel intends to conduct additional trials of other advanced wireless broadband technologies in the very near future. Without an ILEC affiliation, Sprint Nextel will have the marketplace incentives to invest heavily in wireless technologies and trials that promise an innovative, differentiated, high-speed broadband offering or risk losing market share to the cable-ILEC oligopoly and their affiliates.

Furthermore, as a wireless-only carrier, Nextel employs a marketing strategy distinct from the ILEC-affiliated wireless carriers. Nextel targets consumer segments that are likely to use wireless communications as a substitute for ILEC-dominated wireline communications. Nextel, for example, currently offers prepaid wireless services marketed under the "Boost Mobile" brand as a means to target the youth and prepaid calling wireless markets. In 2004, Nextel expanded the distribution of Boost Mobile branded prepaid products and services into a number of additional markets, and Nextel is currently expanding Boost Mobile into nearly all markets. The number of subscribers to Nextel's Boost Mobile-branded prepaid service has grown from 0.5 million as of March 31, 2004 to 1.5 million as of March 31, 2005. Sprint is having similar success with the prepaid wireless service offered by its MVNO partner, Virgin Mobile. Unlike an ILEC-affiliated carrier, the combined Sprint Nextel can be expected to pursue a strategy of targeting consumers that seem particularly likely to substitute wireless services for ILEC-dominated wireline services.

Nextel has consistently made investment decisions that enable the company to offer exclusively wireless communications solutions. For example, Nextel is leading the industry in developing and deploying Direct Talk services. Direct Talk is an all-digital, off-network, walkie-talkie service that works anywhere, anytime between compatible phones within a range of up to six miles. Nextel has deployed Direct Talk in many of its phones so that its subscribers – particularly those in public safety occupations and other mission-critical industries – can keep in touch with others when they are located far beyond wireless coverage. Depending on their location, Direct Talk users may or may not have access to traditional ILEC-controlled wireline networks. As a non-ILEC affiliated company, the combined Sprint Nextel will be able to offer innovative wireless solutions such as Direct Talk regardless of whether these unmetered wireless services offer competitively attractive alternatives to wireline communications services.

More generally, and as discussed in greater detail in Nextel's Response to Request for Information 3, Nextel has since its inception been a leading innovator of fully integrated wireless communications services in the United States. More than one decade ago, Nextel pioneered the Direct Connect walkie-talkie service that allows customers to connect with other Nextel subscribers in less than a second. In 2001, Nextel introduced the first wireless phone in North America with Java technology. The introduction of Java-enabled phones allowed consumers to access and run a host of different software applications that many find critical to running their businesses on their Nextel phones. The introduction of Java-enabled phones also opened the door to hundreds of Java programmers to develop new programs that offer customers easy access to the latest software developments.

In 2002, Nextel unveiled the first-ever nationwide push-to-talk (PTT) feature, Nationwide Direct Connect, which allows customers to Direct Connect other Nextel subscribers anywhere, regardless of their location within Nextel's or Nextel Partners' geographic area. In 2004, Nextel introduced International Direct Connect, allowing customers to instantly connect with other users in and between the U.S. and up to five countries at a fraction of international calling rates without the need for international

operators or codes. Most of Nextel's rate plans include unlimited Direct Connect, which makes Direct Connect a cost-effective communications tool at a fraction of the cost of cellular. Long hailed as a nimble, dexterous innovator in the marketplace, Nextel's merger with Sprint will bring its proven agility to head-to-head facilities-based competition against the established, ILEC-affiliated wireless carriers.

An example best illustrates the point. If Sprint Nextel were affiliated with an ILEC, it would be hindered in developing wireless alternatives to the fiber-to-the-home (FTTH), fiber-to-the-premises (FTTP), and digital subscriber line (DSL) offerings that the ILECs have deployed. Sprint Nextel will have no existing infrastructure capable of competing with the ILEC's FTTH, FTTP, or DSL offerings. To compete in the market for broadband services, Sprint Nextel will need to quickly develop its existing assets, particularly the company's spectrum holdings in the 2.5 GHz band, to provide new, differentiated service that offers consumers wireless high-speed broadband across large geographic areas. This is a key reason that Sprint Nextel will spin off Sprint's current ILEC holdings; *i.e.*, so that the merged company can innovate, develop and offer an ever-expanding array of wireless communications services both competitive with and surpassing existing ILEC access services.

The economic incentive for a wireless-only carrier such as Sprint Nextel to innovate more quickly, price more competitively, and deploy more rapidly than an ILEC-affiliated carrier is well established. As noted in the Besen, Salop, Woodbury (CRA) Declaration,¹ an ILEC-affiliated wireless provider will have less incentive to lower wireless prices in areas in which it is the local exchange carrier than a wireless carrier would. Lower wireless prices would encourage some wireline customers to switch to wireless service, which reduces wireline profits. Thus, an ILEC-affiliated wireless provider would only value the *incremental* profits associated with a wireline-to-wireless subscriber switch, whereas an unintegrated wireless provider would value the *total* profit from adding a new subscriber to its wireless service. This adverse intermodal pricing incentive effect arises even if substitution between wireless and wireline is limited mainly to secondary lines and the two products comprise separate relevant antitrust markets. The magnitude of the impact on pricing incentives depends on the gains to the ILEC-affiliated wireless carrier from obtaining wireless customers from other wireless carriers as compared to the costs of 'cannibalizing' its existing wireline customers.

In addition, an ILEC that is integrated into, and has a substantial share of, wireless service, also has the incentive to raise *wireline* prices relative to an unintegrated ILEC. An integrated ILEC recognizes that higher wireline prices would cause some substitution to its own wireless carrier. In the case of Cingular-AT&T Wireless, the Commission could reasonably have concluded that the merger would increase somewhat the incentives

¹ See *Applications of Nextel Communications, Inc., Transferor, and Sprint Corporation, Transferee, for Consent to the Transfer of Control of Entities Holding Commission Licenses and Authorizations Pursuant to Sections 214 and 310(d) of the Communications Act*, WT Docket No. 05-63, Attachment B, Joint Declaration of Stanley M. Besen, Steven C. Salop, and John R. Woodbury at ¶¶ 69-70 (filed Feb. 8, 2005) (CRA Declaration) (citations omitted).

of BellSouth and SBC to raise wireline prices because the now-affiliated AT&T Wireless would capture some of the lost customers. The extent to which integrated ILECs can act on this wireline pricing incentive depends upon the effectiveness of regulatory oversight.

The Commission has noted that the pricing and other competitive incentives of wireless carriers that are affiliated with a wireline carrier are different from those of standalone wireless carriers. In the *Cingular-AT&T Merger Order*, for example, the Commission noted that “unlike Cingular whose strategies are influenced by SBC’s and BellSouth’s concerns about wireless revenues and access lines, AT&T Wireless is not likely to be concerned with the impact of its strategies on wireline revenues or access lines, except to the extent that they represent a potential source of new wireless customers.”²

Although the Commission ultimately concluded that the public interest benefits of the Cingular-AT&T Wireless transaction outweighed the potential public interest harms, the Commission clearly identified the differences between the competitive incentives of wireless carriers that are integrated with ILECs and those that are not. An important implication of this analysis is that, other things equal, a merger between two standalone wireless carriers raises fewer competitive concerns than a transaction in which one or both of two merging wireless carriers is also a significant local exchange carrier because, among other things, it will best promote intermodal competition between wireline and wireless services.

² *Applications of AT&T Wireless Services, Inc. and Cingular Wireless Corporation For Consent to Transfer Control of Licenses and Authorizations*, Memorandum Opinion and Order, WT Docket No. 04-70, 19 FCC Rcd. 21522, ¶ 243 (Oct. 26, 2004).



FCC INTERROGATORY NO. 2

2. *Describe and document efforts by Nextel to collect and analyze information on their competitors, including in the following areas: (a) pricing plans and other terms of mobile wireless service offered to the general public; (b) special promotions; and (c) prices, volume discounts, and other terms of mobile wireless service for contracts negotiated with large business customers. Identify the sources from which such information is collected. Identify any limits and constraints on the ability of Nextel to collect information in the above areas. Describe and document how Nextel uses such information to design their own pricing plans, other terms of mobile wireless service, promotions, and more generally to develop strategies for attracting and retaining customers.*

Response:

REDACTED IN FULL

Appendix 2-A
Marketing Analyses

REDACTED IN FULL

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Appendix 2-B

Monthly Pricing Plan Models

Excel spreadsheet – provided electronically

REDACTED IN FULL



FCC INTERROGATORY NO. 3

3. *Identify and document all material instances, from January 1, 2001 to the present, in which Nextel was the first carrier to introduce an innovative mobile wireless pricing plan or mobile wireless service offering that other carriers subsequently copied or for which they introduced competing versions.*

Response:

Nextel's pricing strategy has always been an extension of its overall marketing proposition: "Be First, Be Better, Be Different." As part of that strategy, Nextel strives to provide pricing and service offerings to its customers that the competition cannot or will not provide. Nextel can document its own innovative mobile wireless pricing plan and service offerings, but in many instances other carriers have not subsequently introduced competing versions. Nonetheless, Nextel has attempted to document where it believes such offerings were made.¹ Nextel's innovations in this respect include some significant innovations prior to January 1, 2001:

June 1993: Nextel is the first carrier to offer calling plans with Direct Connect capability.

- Verizon, Sprint and Alltel all launch their own versions of PTT/walkie-talkie plans in 2004, 11 years after Nextel did.

January 2000: Nextel is the first carrier to introduce free incoming calling price plans. Nextel's Free Incoming plans are an established, national price plan offering and continue to be one of Nextel's most popular pricing solutions.

- Matched by other carriers on one-off basis in certain geographies.

June 2000: Nextel is the first wireless carrier to introduce "shared minutes" to business customers. Nextel's innovation allowed subscribers to share not only with other users on the same plan, but also with other users on other plans within the same pricing category in the same billing account.

- All major national carriers offer plans that pool cellular minutes in varying formats, some even following Nextel's lead with cross-plan pooling capability. No carriers, though, offer pooling of walkie-talkie minutes -- something Nextel provides on all plans that do not already include Unlimited Direct Connect airtime.

Beginning in 2001, Nextel introduced the following innovative wireless services and pricing plans. Competitive responses are described where warranted.

August 2001: Nextel introduces Nationwide Direct ConnectSM's walkie-talkie feature, with expanded services beginning in Q3 2001.

¹ See also Appendix 3-A (attached).

- Beginning in 2004, Sprint, Verizon, and Alltel offer some type of walkie-talkie feature with nationwide capability to their customers.

February 2002: Nextel is the first wireless carrier to provide access to live streaming audio.

- Sprint provides streaming audio; Nextel is not aware of whether other carriers offer it as well.

August 2002: Nextel is the first carrier to launch the IC2 program on the JavaTM (J2ME) software platform for enterprises. The IC2 program allows enterprise IT departments to run 24x7 support operations without 24x7 on-site staffing.

- Sprint offers Java-based applications and Verizon offers Brew-based applications.

March 2003: Nextel announces Priority Direct Connect Access and Emergency Group Connect capabilities for select Public Sector customers.

- This offering has not been duplicated by any other carrier and continues to be a primary reason for Nextel's success in the Public Safety/First Responder segment.

September 2003: Nextel announces that Nationwide Direct ConnectSM's walkie-talkie capability has expanded internationally to include the northern region of the Mexican state of Baja California.

- No carriers follow.

April 2004: Nextel is the first carrier to offer "flex" cellular calling, which allows usage to dictate which price plan is used to rate a customer's monthly bill.

- Sprint launches Fair & Flexible in June of 2004, using a different methodology. Since its positioning is "Flexible," Nextel considers this offer to follow Nextel's Flex Plan regional launch two months earlier.

May 2004: Nextel launches International Direct ConnectSM, which enables customers to use walkie-talkie features and data services between the U.S., Brazil, Argentina, and Peru, as well as between the U.S. and Canada. Service expanded to Mexico in June 2004.

- No carriers follow; Nextel is the only carrier to provide international walkie-talkie capability, spanning all of North America and parts of South America.

June 2004: Nextel introduces NextMailSM, a unique application that allows users to send a streaming MP3 voice message from their phone to any e-mail recipient quickly and easily by simply pressing the walkie-talkie button on the side of their Nextel phone.

- No carriers follow.

July 2004: Nextel, in partnership with the National Center for Missing & Exploited Children and Communications Laboratories, Inc., announces the creation and pilot of a

wireless AMBER Alert solution that extends the reach of AMBER Alerts to mobile phone users through the Emergency Alert System.

- No carriers follow.

October 2004: Nextel and Trimble join forces to offer the only outdoor recreation product that uses mobile phones for navigation and trip planning.

- Verizon has a navigation offering and Sprint recently announced one.

December 2004: Nextel offers Direct Talksm, a unique service that provides a back-up off-network walkie-talkie feature for use when customers are outside Nextel network coverage areas.

- No carriers follow. Nextel is the first and only national carrier to offer this type of off-network service integrated directly into a cellular handset.

March 2005: Nextel and MapQuest launch exclusive "Find Me" location-based service on GPS-enabled phones.

- No carriers follow. Nextel is the only carrier offering location-based features on GPS-enabled phones.

In addition to these pricing, service and feature innovations, Nextel also has been an innovator in terms of offering differentiated telephone features. These innovations include being the first to offer a cellular speakerphone; first to introduce rugged phones for business; first to offer an Internet-ready phone with two-way messaging and an always-on packet based wireless data network; and the first to offer a rugged, intrinsically safe handset for use in dangerous areas like oil refineries and chemical plants.

Appendix 3-A

Press Releases